

# Outsourcing Base Operations Support Functions

## The Laughlin Experience

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In a recent DoD Acquisition Reform satellite broadcast, Stan Soloway, Deputy Under Secretary of Defense (Acquisition Reform), and Director, Defense Reform Initiative, stated that the A-76 cost comparison process and competitive sourcing is “a critical management tool ... and relies on the benefits of competition to determine the most effective and cost-efficient means to provide a wide range of services to support DoD’s mission.”

He went on to say that “A-76 cost comparisons have consistently concluded the obvious – competition drives better efficiency and higher performance and saves taxpayer dollars.”<sup>1</sup> Indeed, as DoD continues down the right-sizing path, more and more base functions, normally performed by government personnel, are now being outsourced to industry. Inevitably, the effectiveness of the acquisition tools and processes used by the base in the outsourcing effort will have a direct effect on the success of the resulting contract and the accomplishment of the base’s mission.

This article will describe the Air Force outsourcing program, focus on one base’s experience with outsourcing, and then provide some lessons learned on outsourcing base operations support functions.

### Outsourcing — AF Takes the Lead

Outsourcing, or “contracting out” is defined as the transferring of the performance of a function, previously accom-

plished in-house, to an outside provider.<sup>2</sup> An example of outsourcing is accomplishing an Air Force Base’s airfield management function through a contractor rather than using Air Force personnel. Outsourcing entails competing a function currently performed in-house with an outside provider. When that competition shows outsourcing to be more ef-



T-38 aircraft.

DoD photo



At Northrop/Grumman (the contractor for most support functions at Vance AFB, Okla.), a worker is performing maintenance on a T-37 engine.

DoD Photo by Terry Wasson

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Gilbert Auilar, an aircraft attendant on the T-38 Talon for the 47<sup>th</sup> Flying Training Wing at Laughlin AFB, Del Rio, Texas, connects the liquid oxygen hose to the aircraft prior to takeoff for another mission at Roswell Industrial Air Center during Exercise Roving Sands, Roswell, N.M.

DoD Photo by Senior Airman Andy Dunaway



formance and reduce costs of commercial activities; generating savings for Air Force modernization priorities; and shifting more attention, personnel, and assets from non-core to core activities.<sup>4</sup>

While all of the DoD agencies have been implementing an outsourcing strategy to some extent, the Air Force has taken the lead. Over the past 20 years, the Service has netted annual savings of about \$500 million.<sup>5</sup> Currently, the Air Force is focusing on outsourcing depot maintenance, military family housing, and base operations support. Recently, the Air Force has outsourced base-level functions such as aircraft and engine maintenance, grounds maintenance, civil engineering operations, supply, and transportation.

### The Laughlin Experience

Laughlin Air Force Base, located in Del Rio, Texas, about 150 miles west of San Antonio, is an Air Education and Training Command (AETC) base with a Specialized Undergraduate Pilot Training (SUPT) mission. The base provides pilot training to Air Force and international



T-37 aircraft.

DoD photo

efficient and effective, the Air Force contracts with a commercial provider.<sup>3</sup>

The Air Force outsourcing program is aimed at accomplishing one goal: institutionalizing the optimum use of public and private resources in support of the Air Force mission. The Air Force Outsourcing and Privatization (O&P) program, however, is focused on accomplishing four goals: sustaining readiness; finding opportunities to improve per-

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students in the T-37, T-38, and T-1 aircraft. Laughlin is also the site of AETC's regionalized jet engine intermediate maintenance facility, which provides engine maintenance on J69 and J85 engines for Laughlin, Randolph, Sheppard, and Vance Air Force Bases.

Laughlin began outsourcing in 1980 when its vehicle operations and maintenance (VOM) function was contracted out. Since then, five additional A-76 cost studies have been completed on the following functions: transient aircraft alert; grounds maintenance; aircraft maintenance; Base Operations Support (BOS), which includes civil engineering operations, supply, fuels, and transportation; and jet engine maintenance.

Currently Laughlin manages over 20 major service contracts ranging from airfield management to food service management. One of Laughlin's two most recent outsourcing efforts is the multi-million dollar BOS contract. This contract is for civil engineering operations (facilities management, pest management, plumbing, utilities), supply, transportation, fuels, and vehicle operations and maintenance. The contract, awarded in 1996, is a firm-fixed price contract for one basic year with four additional option years.

Laughlin's other recent major outsourcing project is the AETC Engine Regionalization Repair Contract (ERRC). This is a command-managed contract for the intermediate maintenance of engines for the T-37 and T-38 trainer aircraft of Laughlin, Randolph, Sheppard, and Vance Air Force Bases. This contract, awarded in 1997, is a fixed-priced incentive contract with an award fee.

### **Lessons Learned**

Laughlin's experiences with the BOS and ERRC contracts have provided AETC and the rest of the Air Force with some valuable lessons learned on outsourcing major services. These lessons learned deal not only with the obvious contracting processes, but also with the not-so-obvious indirect impact of outsourcing base functions. The remainder of this article will discuss some of Laughlin's experi-

ences and the more significant lessons learned.

### **THE PERFORMANCE WORK STATEMENT IS CRITICAL**

The core of the outsourcing process involves the development of the Performance Work Statement, or PWS. The PWS defines the work and level of effort to be accomplished in the contract. It should be noted that the PWS does not tell the contractor *how* to do the work; rather, it tells the contractor *what* needs to be done, and it provides a means for determining whether the work has been acceptably performed.

The PWS is one of the most critical documents in the outsourcing process. Since this document identifies the work to be performed and is the basis for the contractor's proposal, it is extremely important that it be as complete and accurate as possible. The success of the outsourcing effort and the Air Force's contract management process is determined by the validity of the PWS. An incomplete or inaccurate PWS may result in failure to perform the mission, as well as increased contract administration costs.

In addition to the PWS, the contract should also contain a Quality Assurance Plan, which provides the Quality Assurance Evaluator (QAE) with an effective tool for surveying the contractor's performance. These tools include various surveillance techniques such as random sampling, 100 percent inspection, and periodic surveillance. The Quality Assurance Plan is used to ensure that the government receives acceptable contractor performance as compared against the technical requirements of the contract. Thus, the PWS describes the work in terms of objective, measurable performance standards, and the Quality Assurance Plan determines if the contractor's performance meets the PWS requirements.

The use of the PWS and Quality Assurance Plan leads to more cost-effective contracts, which shift some of the manageable performance risk from the government to the contractor. In addition, the PWS allows contractors more lati-

tude for determining performance methods, with more responsibility for performance quality.

Developing the PWS and Quality Assurance Plan requires close coordination between the functional offices to be outsourced (civil engineering, supply, fuels, transportation, among others) and the contracting office to ensure that they completely and accurately define the Air Force's functional requirements. The PWS must be developed in conjunction with the Quality Assurance Plan, to ensure that the method of surveillance is proper for the type of work to be accomplished in the contract.

Frequent communication and coordination between the functional offices and the contracting office are critical. In addition, continuous review of the PWS during contract performance is essential for the success of the contract. The acquisition team, made up of functional managers, QAEs, and contracting officers, must take into consideration any changes in requirements, technology, contract standards, as well as any problem areas caused by ambiguous contract language or ineffective surveillance procedures.

### **QUALITY ASSURANCE SHOULD FOCUS ON PERFORMANCE MEASUREMENT**

The trend in outsourcing base services has put a new emphasis on the role of the QAE. The QAE function has evolved from a part-time job to one of the most critical positions on the acquisition team. With the Quality Assurance Plan as its primary tool, the QAE is responsible for ensuring that the contractor performs in accordance with the PWS requirements, thus ensuring that the Air Force receives full value for the increasing dollars spent for these base services. Thus, the QAE needs to be technically competent in the functional area of surveillance, proficient in contract surveillance procedures, and of course, well versed in the requirements of the PWS.

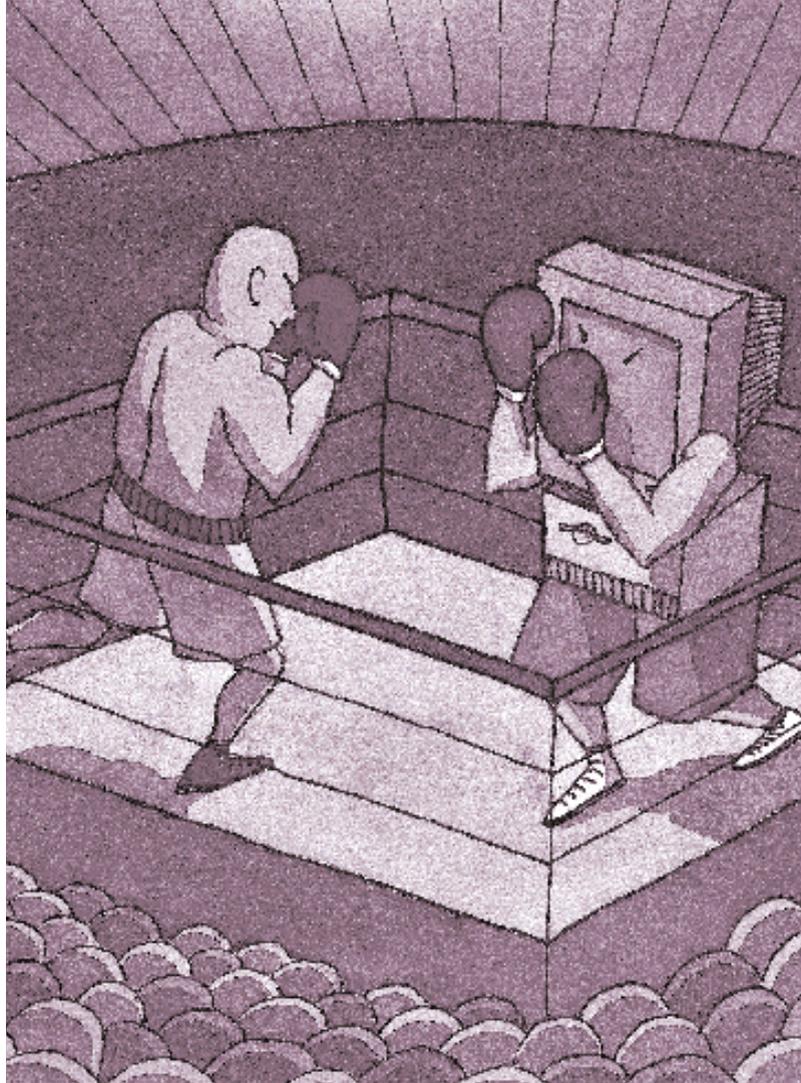
The QAE is an integral part of the acquisition team and must interact continuously with the contracting officer.

Once the contract is awarded, the QAE is in the best position to determine if the Quality Assurance Plan adequately covers all elements of the PWS. For example, if the contract performance requirements do not accurately represent the criticality of each service, and its payment percentages do not accurately represent the work hours for each task, the QAE will realize that the deductions aren't worth the costs of the time it takes to process them.

To reiterate, the PWS does not tell the contractor *how* to do the work; rather, it spells out for the contractor *what* needs to be done, and it provides a means for determining whether the work has been acceptably performed. The QAE should be focused on whether the contractor's performance meets the objective measurements of the PWS. This new focus on performance measurement is intended to allow the contractor to determine the "how" of the contract requirements, and enables the government to focus on the result, or the "what" of the contract requirement. Contracting officers are in a pivotal position as they interact with QAEs to determine contractor performance evaluation, and with the contractors to administer the contractual requirements of the contract.

#### AIR FORCE AND CONTRACTORS MUST BE TEAM PARTNERS

The rising trend in outsourcing base services has put a different perspective on



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these major service contractors. This perspective is changing to reflect a transition from a tactical focus to a more strategic focus on the value of these contractors. With long-term, performance-based service contracts in place, these major service contractors are being viewed as extensions of the Air Force's internal mission capability. This is especially true for contractors performing

mission-critical functions such as civil engineering operations, fuels, supply, aircraft/engine maintenance, and airfield management.

Because of this new strategic view of service contractors and the need for increased communication and cooperation, the Air Force is implementing partnering arrangements with its major service contractors. These partnering relationships are not legal entities, but rather a *change in attitude* from that of being adversarial and at arms-length to one based on teamwork, cooperation, and good faith performance.

The traditional government-contractor relationship at an operational base was more *tactical* in nature, with a short-term relationship focus. In this traditional environment, the government and contractor typically operated in a less-than-cooperative nature, believing that the only way to manage a contract was at the other's expense. However, with the contractor now performing long-term, mission-critical functions and the government more dependent on contractors for

mission accomplishment, both parties are now motivated to work in a more collaborative mode. The partnering relationship constitutes a mutual commitment by the parties on how they will interact during the period of performance, with the primary goal of facilitating improved contract performance through enhanced communications.

The partnering relationship requires a mutual commitment to work together to the benefit of both parties, sharing relevant information and the risks and rewards of the relationship. The partnering relationship also requires a clear understanding from both parties of expectations, open communications and information exchange, mutual trust, and a common direction of the future.

Most partnering programs involve frequent meetings between the program manager, contracting officers, and contractor management personnel. These meetings are for discussing and resolving any technical or contractual issues pertaining to the contract. The objective is to identify, analyze, and resolve performance issues before they become detrimental to the organization's mission. As the partnering relationship matures and both parties become comfortable with the arrangement, contract performance should improve, with problems and deficiencies becoming less common.

The contracting officer must be consistently and constantly vigilant with the management of the partnership to ensure that the relationship does not deteriorate.<sup>6</sup> The contracting officer must also continue to monitor the relationship through appraisal and feedback mechanisms to facilitate any changes or problems that may arise during the contract performance period.

#### AWARD FEES MOTIVATE CONTRACTORS

Once the contract is awarded, the PWS is pretty much baselined with the contract price, that is, any additional requirements added to the PWS will usually require an equitable adjustment to the contract price. The time required to negotiate a modification to the contract may result in the loss of flexibility for the Air Force to quickly react to any mission changes or required surges in level of effort. The use of award fee contracts is one way of incentivizing the contractor to provide superior performance in such areas as quality, timeliness, and responsiveness, which are over-and-above the standards of the contract. The

amount of the award fee to be paid is based upon a subjective evaluation by the Air Force of the quality of the contractor's performance, judged in light of the criteria set forth in the contract. The award fee criteria should be flexible enough to motivate the contractor in a positive way to improve performance.

The award fee decision is based on the reports of performance made by Air Force personnel knowledgeable with respect to the contract requirements. It should be noted that this decision is a unilateral determination made by the government not subject to the Contract Disputes clause.

#### BEWARE OF THE "RIPPLE EFFECT"

Depending on the extent of outsourcing conducted on an Air Force Base and the unique characteristics of the base, the outsourcing results may have some "ripple effects" on the base demographics and infrastructure. This will be especially true if the outsourcing results in the displacement of a significant number of military "blue-suiters," or if the resultant contracts interface with other current base service contracts.

Most base functions do not operate in a vacuum. Every base service will have an effect on, or be affected by, another base service. This is especially true in the base operations support area, and will be significantly magnified when these functions are contracted out. For example, when the airfield management and grounds maintenance functions are contracted out, there must be extensive coordination between these two functional managers (operations and civil engineering) when developing the performance work statements. Once these contracts are awarded, any PWS deficiencies may result in holes in the operations or loss of mission capability such as clear responsibility for airfield grass height monitoring and bird/pest management.

In addition, if the outsourcing of base functions results in a significant reduction of military personnel on base, this may also result in a decreased demand for such base activities as officer/enlisted clubs, base theater and bowling alley, en-

listed dormitories and dining halls, and off-duty education programs. The base leadership may decide that it would not be cost-effective to continue to operate these facilities with the reduced demand for these services.

#### Reshaping for the Future

Competitive sourcing and privatization is one initiative the Air Force is using to find the most efficient means of providing some of our non-military essential functions. The Air Force's emphasis on contracting out its base operations support functions is reshaping how the Air Force will function in the future. The lessons learned on proper development and use of performance work statements, quality assurance plans, partnerships, and award fees discussed in this article are instrumental in ensuring a successful contract and mission accomplishment.

**Editor's Note:** The author welcomes questions or comments on this article. Contact him at [Rene.Rendon@losangeles.af.mil](mailto:Rene.Rendon@losangeles.af.mil).

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